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1982 OMNIBUS TERRITORY AUTHORIZATION

APRIL 29 (legislative day, APRIL 13), 1982.—Ordered to be printed

Mr. WEICKER, from the Committee on Energy and Natural Resources, submitted the following

REPORT

[To accompany H.R. 5139]

The Committee on Energy and Natural Resources, to which was referred the act (H.R. 5139) to authorize appropriations for certain insular areas of the United States, and for other purposes having considered the same, reports favorably thereon with an amendment to the text and recommends that the act as amended do pass.

The amendment is as follows:

Strike all after the enacting clause and insert in lieu thereof the following:

TITLE I—GUAM

SEC. 101. Section 7 of the Organic Act of Guam (64 Stat. 384, 487), as amended, is revised to read as follows:

"SEC. 7. (a) The people of Guam shall have the right of initiative and referendum, to be exercised under conditions and procedures specified in the laws of Guam.

"(b) Any Governor, Lieutenant Governor, or member of the legislature of Guam may be removed from office by a referendum election in which at least two-thirds of the number of persons voting for such official in the last preceding general election at which such official was elected vote in favor of recall and in which those so voting constitute a majority of all those participating in such referendum election. The referendum election shall be initiated by the legislature of Guam following (a) a two-thirds vote of the members of the legislature in favor of a referendum, or (b) petition for such a referendum to the legislature by registered voters equal in number to at least 50 percentum of the whole number of votes cast at the last general election at which such official was elected preceding the filing of the petition.".

SEC. 102. Section 1(a)(1) of Public Law 95-348 (92 Stat. 487) is amended by deleting "involved." and inserting in lieu thereof "involved; and $5,000,000 for fiscal year 1983."

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COMPLETED

TITLE II—TRUST TERRITORY OF THE PACIFIC ISLANDS

SEC. 201. In section 402(a) of Public Law 96-597 (94 Stat. 3478) strike "by October 1, 1982," and insert in lieu thereof: "by a date not later than ninety days following termination of the trusteeship agreement governing the administration of the Trust Territory of the Pacific Islands,".

TITLE III—VIRGIN ISLANDS

SEC. 301. (a) Effective October 1, 1982, there is authorized to be appropriated to the Secretary of Interior $150,000 to be paid as a grant to the government of the Virgin Islands for use by the College of the Virgin Islands to study and plan for the creation of an institution for Caribbean educational, cultural, and technical interchange.

(b) The Secretary may place such stipulations as he deems appropriate on the use of funds appropriated pursuant to subsection (a) of this section.

(c) Grant funds appropriated pursuant to subsection (a) but not obligated or expended during the fiscal year in which they are appropriated shall remain available for obligation or expenditure in subsequent fiscal years.

SEC. 302. Section 405 of Public Law 96-205 (94 Stat. 84, 89) is amended by adding at the end thereof the following new sentence:

"The officials of the Customs and Postal Services of the United States are directed to assist the appropriate officials of the United States Virgin Islands in the collection of these taxes.".

TITLE IV—MISCELLANEOUS

SEC. 401. Effective October 1, 1982, there is authorized to be appropriated to the Secretary of the Interior for Fiscal Years 1983, 1984, and 1985 such sums as may be necessary for grants to the Virgin Islands and Guam to reimburse such areas (in amounts equal to any reductions in revenues) for any revenue reductions they sustain as a result of the enactment of any general Federal tax revision or reduction: *Provided*, That for fiscal years 1984 and 1985 such authorization is limited to the reduction in revenue levels from fiscal years 1983 and 1984 respectively.

SEC. 402. Section 607 of Public Law 96-597 (94 Stat. 3477, 3483) is amended by deleting subsections (b), (c), and (d) and inserting in lieu thereof the following:

"(b) The Governors of Guam and the Virgin Islands shall, as a condition for a grant pursuant to subsection a of this section, submit a plan which is designed to eliminate the respective territory's general fund deficit by the beginning of Fiscal Year 1987 to the Secretary of the Interior. Within sixty days after he has received such a plan, the Secretary of the Interior shall transmit the plan, together with his comments and recommendations to the Congress. The plan shall provide for—

"(1) implementation of an effective budgetary and accounting system;

"(2) realistic revenue and expenditure projections which will progressively reduce current year general fund deficits and result in a balanced general fund budget no later than the beginning of fiscal year 1987;

"(3) financing of accumulated general fund deficits; and

"(4) quarterly goals and timetables for implementing the plan. The plan shall also indicate that the Governor has the necessary authority to implement the plan.

"(c) Not later than thirty days after the close of each quarter which occurs after the plan has been transmitted to the Congress, the respective Governor shall submit a report to the Secretary of the Interior and the Congress describing in detail the success or failure of such territory in meeting the goals and timetables described in such plan.".

PURPOSE OF THE MEASURE

The purpose of this measure, as reported, is to—

(1) Authorize initiative and referendum in Guam and recall of the Lieutenant Governor and members of the Legislature;

(2) Change the date for transfer of federal property in the Trust Territory of the Pacific Islands;

(3) Authorize $150,000 for planning for a Center for Caribbean Studies at the College of the Virgin Islands;

(4) Authorize $5 million for construction projects in Guam;

(5) Authorize the Postal Service and Customs Service to assist the Virgin Islands in the collection of excise taxes;

(6) Authorize incremental revenue loss reimbursement to Guam and the Virgin Islands due to Federal tax legislation; and

(7) Modify the procedure for deficit elimination plan submissions from Guam and the Virgin Islands.

Background and Explanation of Committee Amendments

TITLE I—GUAM

Guam is an unincorporated organized territory of the United States approximately 3,700 miles west of Hawaii. The territory contains 255 square miles of land area and has a population of approximately 100,000 of which 20,000 are military personnel.

Guam was ceded by Spain to the United States on December 10, 1898 by the Treaty of Paris following the Spanish-American War. It was administered by the U.S. Navy until 1950 and since then by the Department of the Interior. Pursuant to the Organic Act of 1950; it is self governing with a popularly elected Governor and legislature.

Section 101 of the committee amendment would amend section 7 of the Organic Act of Guam to provide for initiative and referendum and for the recall of the Lieutenant Governor and members of the legislature. Section 7 presently provides a process only for the recall of the Governor. This language was requested by Guam and is necessary since the Government of Guam may exercise only those powers provided under the organic legislation which does not authorize legislation by initiative. The Lieutenant Governor and members of the legislature are elected and hold office pursuant to the organic legislation which similarly does not provide for recall of these officials as it does for the Governor.

This section was included as title I of H.R. 5139 as passed by the House. The Committee amendment would rewrite section 7 of the Organic Act rather than simply inserting new language as proposed by title I of H.R. 5139 as passed.

Section 102 would authorize $5 million for ocnstruction grants to Guam for water transmission lines in Dededo/Mangilao, Windward Hills and Yona/Chalan Pago and dry dock facilities on Cabras Island. The administration proposed 75 percent funding ($3,165,000) of these projects in S. 2264, but the committee has authorized full funding plus funds to train personnel for maintenance of the projects. It is uncertain whether Guam has sufficient funds to make any contribution to the completion of these projects and the committee feels that the Appropriations Committee should have the flexibility to consider the Federal responsibility for the territories, the national interest in the projects, their contribution to the development of the economy of Guam, and the capability of Guam to make a contribution to the project cost. In addition, the committee feels that the administration and the Congress should consider including, as an element of any construction project, funds to train personnel to maintain the project.

TITLE II—TRUST TERRITORY OF THE PACIFIC ISLANDS

The Trust Territory of the Pacific Islands is comprised of the Micronesian island groups of the Marshalls, Carolines, and Marianas (except for Guam, which is an unincorporated territory of the United States). The far western boundary of the area is only 500 miles from the Philippines and Hawaii is some 1,800 nautical miles from the eastern border. The 2,100 islands of the trust territory cover an ocean area approximately the size of the Continental United States with a land area of 516 square miles. Only about 100 of the islands are inhabited with a population of 130,000.

The trust territory is administered by the United States pursuant to a trusteeship agreement with the United Nations dated July 19, 1947.

Section 201 would amend section 402(a) of Public Law 96–597 to change the effective date for the transfer of Federal property in the trust territory from October 1, 1982 to "a date not later than ninety days" from the date of termination of the trusteeship. The original date assumed termination of the trusteeship in 1981, which has not occurred.

TITLE III—VIRGIN ISLANDS

The U.S. Virgin Islands is an organized, unincorporated territory of the United States. The Virgin Islands consists of three principal islands and approximately 50 smaller islands and nlets located in the Caribbean Sea approximately 40 miles east of Pu rto Rico. The three principal islands are St. Thomas (where the capit l, Charlotte Amalie is located), St. Croix, and St. John. Water Islan and Hassel Island adjacent to St. Thomas are also inhabited. The te ritory contains 130 square miles of land area with a population of arc und 100,000.

The Virgin Islands was acquired from Denmar by a treaty signed August 4, 1916, for the sum of $25 million. Pu suant to the 1936 Organic Act, the 1954 Revised Organic Act, and subsequent amendments, the Virgin Islands, is self-governing with an elective Governor and legislature.

Section 301 would authorize $150,000 for a Center for Caribbean Studies at the College of the Virgin Islands. Funding for the center was included as a specific item in the White House Fact Sheet which accompanied the President's Caribbean Basin Initiative.

Section 302 of the amendment authorizes officials of the U.S. Postal Service and Customs Service to assist officials of the government of the Virgin Islands in the collection of excise taxes. A similar provision was included as section 202 of S. 1674.

The U.S. Postal Service supported the provision to the extent that it authorized assistance comparable to that provided Puerto Rico under 48 U.S.C. 741(a) and Domestic Mail Manual section 115.96. The Customs Service noted that assistance was already being provided pursuant to section 603 of Public Law 96–205.

The need for the provision arose as a result of section 405 of Public Law 96–295 which authorized the Virgin Islands to levy excise taxes on goods at the point at which the goods entered the territory. Officials of the Virgin Islands requested assistance from the Postal Service for permission to take down the names and addresses from packages. The Postal Service provides this assistance in Puerto Rico and had

sufficient authority under the 1917 Act. The Postal Service felt that it was unclear if this authority survived the 1936 Organic Act and 1954 Revised Organic Act enactments. No interference or delay in the delivery of mail would be contemplated or authorized by this section. To clarify that the authorization is directed at those excise taxes levied on goods at the time they are brought into the territory, the amendment modifies the language of S. 1674 to refer directly to section 405 of Public Law 96–205.

TITLE IV—MISCELLANEOUS

Section 401

This section would authorize grants to Guam and the Virgin Islands to offset any reduction in revenues resulting from Federal tax legislation. The authorization is limited to the incremental reduction in 1983 from 1981 base levels, in 1984 from 1983 levels, and in 1985 from 1984 levels calculated as if the Federal tax changes had not been enacted. Unlike the several States, the territories of Guam and the Virgin Islands do not have independent taxing authority on income. The Federal internal revenue laws apply as the local tax and changes in Federal tax laws are automatically mirrored in the territory resulting in reduced revenues. The Congress has previously enacted legislation to reimburse these territories for the revenues lost due to the Tax Reduction Act of 1975, the Tax Reform Act of 1976, and the Tax Reduction and Simplification Act of 1977. In addition, in order to provide some flexibility, Congress has authorized each territory to levy a 10 percent surtax. However, the February 19, 1982, report from the Department of the Interior on the impact of tax changes and Federal program reductions indicates that revenue losses will greatly exceed the 10 percent. The intent of this section is not to hold the territories harmless from the effect of the law, but to provide the territories with a 1-year delay in the impact of the tax changes on their revenues. If the territories are unable to maintain essential services in future years, they should request direct authorizations for operations as has been done in the past and as annually occurs in American Samoa, the Northern Mariana Islands, and the Trust Territory of the Pacific Islands.

The committee is concerned with the continued inability of the mirror tax formula to provide an adequate and assured base for territories to plan and administer local program responsibilities. The committee is equally concerned with the impact of Federal program reductions on the economies and local government resources of the territories. Accordingly, the committee recommends that the Secretary of the Interior consult with the appropriate officials from each of the insular areas as part of the comprehensive review of alternatives to allocate Federal and local government responsibilities and to provide the local governments with a degree of certainty in developing their annual budgets consistent with the Federal responsibility for these areas.

Section 402

This section would amend section 607 of Public Law 96–597 which authorized a series of decreasing grants to Guam and the Virgin Islands to eliminate their general fund deficits. Public Law 96–597 re-

quired the Secretary of the Interior to approve a deficit elimination plan submitted by each Governor. This section would eliminate the requirement for the Secretary to approve the plan and would replace it with a 60-day review period after which the Secretary is to transmit the plan, with his comments and recommendations, to the Congress. The requirements of the plan are not altered.

The committee is concerned that the territories are not being fully consulted in decisions by Federal agencies to reduce or eliminate services and is equally concerned that the Secretary of the Interior, who is charged with the responsibility for these areas, is not involved in the decisions. Given the narrow economic base of the insular areas and the limited resources available to the local governments to absorb such reductions and maintain basic services, the committee believes that the Secretary of the Interior should participate more aggressively in the future in such decisions.

The amendment would delete title IV of H.R. 5139. Title IV of H.R. 5139 would have authorized the Secretary of the Interior to guarantee loans or other obligations of the American Samoa Power Authority. The administration has indicated support for such authority in the fiscal year 1983 budget submission for the Department of the Interior, but has not transmitted legislation to the Congress. Also, the government of American Samoa does not have authority to issue bonds or obligations under its constitution which is established by secretarial order. The most recent report on the American Samoa Power situation was released on August 27, 1981 by the Department of the Interior and noted that "only 4 of the 10 territory generators are operating, and these have been derated by approximately 20 percent, or 2.3 megawatts, due to mechanical problems. The current (April 1981) maximum operating capacity of the American Samoa government equipment is 8.9 megawatts." The peak demand load is 12.9 megawatts with an average demand load of 10.5 megawatts and this is being met only by use of leased Army generators. The report noted that preventive maintenance is impossible since generators cannot be taken out of service and that due to pay levels qualified personnel cannot be obtained. The report concluded that

> [A]n appropriate objective for the power authority is to improve the utility's operating and financial condition sufficiently to enter the private bond market for capital improvements. This is not possible at present since the power authority could not receive a favorable bond rating.

Since authorizations already exist for grants or direct loans to American Samoa, American Samoa does not have the authority to issue bonds or other obligations for this purpose, and the Department's report concludes that a favorable rating would not be possible, the amendment would delete this provision.

Legislative History

H.R. 5139 was introduced on December 8, 1981, and was reported to and passed by the House on December 11, 1981. Similar legislation,

S. 1674, was introduced by Senator Weicker on September 28, 1981 and was the subject of hearings by the committee on October 21, 1981. An amendment in the nature of a substitute was offered by Senator Weicker for himself and Senators McClure, Johnston, and Matsunaga.

Committee Recommendation and Tabulation of Votes

The Senate Committee on Energy and Natural Resources, in open business session on March 31, 1982, by unanimous vote of a quorum present recommends that the Senate pass H.R. 5139, if amended as described herein.

Cost and Budgetary Considerations

The following estimate of costs of this measure has been provided by the Congressional Budget Office:

U.S. Congress,
Congressional Budget Office,
Washington, D.C., April 16, 1982.

Hon. James A. McClure,
Chairman, Committee on Energy and Natural Resources, U.S. Senate, Washington, D.C.

Dear Mr. Chairman: Pursuant to section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has prepared the attached cost estimate for H.R. 5139, a bill to authorize appropriations for certain insular areas of the United States, and for other purposes.

Should the committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

Alice M. Rivlin, *Director.*

Congressional Budget Office—Cost Estimate

April 16, 1982.

1. Bill number: H.R. 5139.
2. Bill title: A bill to authorize appropriations for certain insular areas of the United States, and for other purposes.
3. Bill status: As ordered reported by the Senate Committee on Energy and Natural Resources, March 31, 1982.
4. Bill purpose: The bill would authorize the appropriation of $150,000 for a Center for Caribbean Studies at the College of the Virgin Islands and such sums as may be necessary for grants to the Virgin Islands and Guam as reimbursement for any revenue reductions in fiscal years 1983 through 1985 resulting from enactment of general federal tax revisions. H.R. 5139 would also provide the right initiative and referendum to the people of Guam for the purpose of recalling the Lieutenant Governor or any member of the legislature. In addition, the bill would authorize the appropriation of $5 million for construction projects on Guam in fiscal year 1983, and would alter the date for transfer of federal property in the Trust Territory of the Pacific Islands

from October 1, 1982, until 90 days after the date of termination of the trusteeship.

5. Cost estimate:

	Millions
Estimated authorization level:	
Fiscal year:	
1983	$60
1984	20
1985	15
1986	-----
1987	-----
Estimated outlays:	
Fiscal year:	
1983	$60
1984	20
1985	15
1986	-----
1987	-----

The costs of this bill fall within budget function 800.

6. Basis of estimate: The above estimate includes the $5.15 million authorized for capital projects in Guam and for a Center for Caribbean Studies at the College of the Virgin Islands. It is assumed that the amount authorized will be appropriated. The estimate of annual outlays is based on historical spending patterns.

CBO has estimated the effects of the Economic Recovery Tax Act of 1981 on revenues to Guam and the Virgin Islands. In its analysis CBO has assumed that the impact of the Economic Recovery Tax Act on territorial tax receipts will be similar to the projected effects on federal tax receipts in general. The bill does not specify how a fiscal year 1983 grant would be calculated. Based on a draft of the Committee report language and information from the Committee staff, CBO has estimated the potential fiscal year 1983 grant as the difference between projected fiscal year 1983 revenues, and an estimate of what those revenues would have been in the absence of the tax bill. CBO's estimate of the fiscal year 1983 revenue losses incurred by Guam and the Virgin Islands as a result of the 1981 tax act is approximately $55 million. Fiscal year 1984 and 1985 grant levels have been estimated by comparing projected tax revenues for each fiscal year under the new act with an estimate of tax revenues based on the tax provisions in effect one year earlier. On this basis, CBO estimates grants totaling $20 million in fiscal year 1984 and $15 million in fiscal year 1985 would be necessary to cover revenue losses in those years. (If the 1983 authorization were estimated on the same basis as for 1984 and 1985—i.e., based on a one-year lag—the 1983 grant would be approximately $30 million.)

7. Estimate comparison: None.

8. Previous CBO estimate: None.

9. Estimate prepared by: Judy Walker.

10. Estimate approved by:

10. Estimate approved by James L. Blum, Assistant Director for Budget Analysis.

Regulatory Impact Evaluation

In compliance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the committee makes the following evaluation of

the regulatory impact which would be incurred in carrying out H.R. 5139.

The bill is not a regulatory measure in the sense of imposing Government established standards or significant economic responsibilities on private individuals and businesses.

No personal information would be collected in administering the provisions of the measure. Therefore, there would be no impact on personal privacy.

Little, if any, additional paperwork would result from the enactment of H.R. 5139.

Executive Communications

The committee requested formal agency recommendations on S. 1674, a measure similar to H.R. 5139, from the Department of the Interior, the Department of Justice, the Department of the Treasury, the U.S. Postal Service, and the Office of Management and Budget on October 5, 1981. The Departments of Justice, Treasury, and the Interior and the Office of Management and Budget did not submit formal agency reports on the legislation but representatives of the three Departments did present formal testimony at the October 21, 1981, hearing and their statements are set forth in the printed transcript of that hearing. The U.S. Postal Service did submit formal agency recommendations pursuant to the committee request, and their report is set forth below together with communications from the Department of the Interior and the Department of the Treasury received after the hearing in response to questions concerning the legislation raised during the hearing.

U.S. Postal Service,
Washington, D.C., October 19, 1981.

Hon. James A. McClure,
Chairman, Committee on Energy and Natural Resources, U.S. Senate, Washington, D.C.

Dear Mr. Chairman: This responds to your request for the views of the Postal Service on S. 1674, a bill to amend or repeal certain provisions of the organic acts applicable to the Virgin Islands, and for other purposes.

Our interest is limited to section 202 of the bill, which provides for cooperation by Customs and Postal Service officials with officials of the United States Virgin Islands in the collection of local excise taxes. The Postal Service has no objection to what we understand to be the intent of this provision, to authorize assistance by the Postal Service to the Virgin Islands similar to the assistance rendered to the Government of Puerto Rico under 48 U.S.C. § 741a (1976) and Domestic Mail Manual § 115.96. Such assistance would enable Virgin Islands tax collection officials to inspect the outside cover of parcels entering the Virgin Islands in the mails and to record the information thereon for purposes of collecting excise taxes payable at the time of importation for certain goods arriving through the mails.

As a technical matter, we believe that the language of section 202, which currently refers broadly to "the collection of excise taxes", should be drafted more narrowly to refer only to those excise taxes for which the Virgin Islands reasonably may look to the Postal Service for collection assistance, namely those imposed under section 405 of

the Act of March 12, 1980, Pub. L. No. 96-205, 94 Stat. 99 (48 U.S.C. § 1574 note), which are assessed at the time of importation. In place of the broad provision in present section 202 standing alone, we suggest an amendment to section 405 adding an additional sentence at the end reading as follows: "The officials of the Customs and Postal Services of the United States are directed to assist the appropriate officials of the United States Virgin Islands in the collection of these taxes." It may also be useful to repeal the related obsolete provisions found in the second proviso and the last sentence of section 4 of the Act of March 3, 1917, as enacted by the Act of June 24, 1932, 47 Stat. 333 (48 U.S.C. § 1395).

With these changes, the Postal Service would have no objection to the approval of S. 1674.

Sincerely,

W. ALLEN SANDERS,
Associate General Counsel,
Office of General Law and Administration.

DEPARTMENT OF THE TREASURY,
Washington, D.C., November 4, 1981.

Hon. LOWELL P. WEICKER, Jr.,
U.S. Senate,
Washington, D.C.

DEAR SENATOR WEICKER: I am responding to the request which you made during hearings on S. 1674, the Omnibus Territories Bill, for further analysis of the effect on territorial tax revenues of the tax reductions under the Economic Recovery Tax Act of 1981.

We estimate that the impact of these cuts over the next three years, relative to territorial tax collections in the absence of the tax law changes, and taking no account of tax increases due to inflation, will be as follows:

Liabilities

	Millions
Virgin Islands:	
Calendar year:	
1982	$12
1983	22
1984	32
1985	35
Guam:	
Calendar year:	
1982	9
1983	21
1984	30
1985	31

These estimates, which we developed with the staff of the Joint Committee on Taxation and which we have discussed with the Interior Department, assume 10 percent annual growth in tax collections in the absence of a tax cut. These estimates are similar to estimates made by the Virgin Islands and Guam.

The limited data available on American Samoan income levels and the sensitivity of their tax revenues to the investment behavior of a small number of corporate taxpayers make it difficult to estimate the impact of the tax cuts on American Samoa with any precision. Ameri-

can Samoa estimates that it will lose $0.3 million in 1982 as a result of the tax reductions.

The impact of the changes in U.S. tax law should be compared with the built-in tax increases due to inflation. With a progressive rate structure, increases in nominal income that move a taxpayer into a different tax bracket can dramatically increase his tax burden. Furthermore, with exemptions and deductions stated in fixed dollar terms, taxable income during a period of inflation rises more rapidly than inflation. Real income—the taxpayer's actual purchasing power—may stay the same or actually decline, but his tax liability increases in real terms as a result of the inflation of his income. Congress recently recognized the "unlegislated" tax increases arising from inflation by providing for the indexing of tax brackets beginning in 1985.

The enclosed table makes the comparison for the United States between the cumulative impact of inflation and the tax reductions enacted in the Economic Recovery Tax Act. The table takes account of the statutory rate reductions, the new savings incentives, the reduction in the marriage penalty, and all other changes in the Act that reduce individual tax liabilities. The table shows that bracket creep due to inflation will offset 84 percent of the tax cut in calendar year 1982, and approximately 60 percent of the tax cuts in 1983 through 1986.

Because of the close economic ties between the United States and the territories, inflation rates in the territories are generally close to the U.S. mainland rates. Given the lower average income levels and territorial taxpayers, the net impact of the tax cuts and inflation is likely to be a somewhat smaller real tax cut in the territories than in the United States.

If the Virgin Islands and Guam do not want to cut their income taxes, they can impose their own income surtax of up to 10 percent, and/or increase non-income based taxes. For example, the government of Guam has noted that an alternative to Federal tax loss reimbursement grants would be a locally enacted increase in Guam's gross receipts tax from 4 percent to 5 percent, which would increase revenues by approximately $10 million in 1983. Imposition of a 10 percent income tax surcharge in Guam would raise an additional $8 million in 1983. Together, these two measures would much more than offset the net change in Guam's income tax receipts in 1983 and 1984 which will result from the Economic Recovery Tax Act and inflation.

In the case of American Samoa, the local legislature has full authority over both territorial income taxes and non-income taxes. Thus, the legislature could choose to retain the income tax provisions in effect prior to the passage of the Economic Recovery Tax Act.

If, however, the territories can obtain additional funds from the Federal government to offset cuts in the U.S. income tax, they can avoid the hard choice between maintaining tax burdens at current levels and cutting government spending.

There may be good reasons for increasing the general appropriations to the territories, but the Economic Recovery Tax Act is not among them. On whatever grounds increased appropriations are justified, there is no reason why the increase should be indefinite in amount, as proposed under section 204 of S. 1674.

I hope that this explanation addresses the points raised in the hearings. I would be pleased to answer any further questions which you or the Senate Energy and Natural Resources Committee may have.

Sincerely,

A. W. GRANWELL,
International Tax Counsel.

Enclosure.

A COMPARISON OF THE INDIVIDUAL INCOME TAX REDUCTIONS OF THE ECONOMIC RECOVERY TAX ACT OF 1981 WITH BRACKET CREEP DUE TO INFLATION SINCE 1980

[Based on midsession review economic assumptions; in billions of dollars]

Year	Bracket creep due to inflation since 1980	Individual income tax reductions under ERTA
1981	9.3	−0.2
1982	24.2	−28.9
1983	46.3	−77.2
1984	70.7	−121.4
1985	96.7	−148.8
1986	126.3	−189.0

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Nov. 2, 1981.

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., November 18, 1981.

Hon. LOWELL P. WEICKER, Jr.,
U.S. Senate,
Washington, D.C.

DEAR SENATOR WEICKER: During the October 21, 1981, hearing on S. 1674, you asked that we provide "the specifics . . . as to the impact or effect of the budget cuts upon the territories."

To begin with, we would like to clear up a misunderstanding regarding the Department's willingness and ability to provide the Committee with estimates of the effect of budget and tax cuts on the territories. We were not only ready and willing to provide such information, but we did so at the beginning of the hearing. For the record, the amounts of the cuts for fiscal year 1982, by territory, as presented to the Committee on October 21, 1981, were as follows:

	Millions
Federal Program cuts:	
Virgin Islands	$12.6
Guam	10.0
American Samoa	5.5
Northern Marianas	4.0
Trust Territory	6.9
Total	39.0
Income tax cuts:	
Virgin Islands	14.1
Guam	9.4
American Samoa	.3
Total	23.8

Following the submission of the above estimates, candor compelled us to add several caveats regarding the reliability and probable revision of the data. Unfortunately, these caveats were apparently taken by you and by territorial representatives in attendance as signs

of our inability to supply any data. In fact, most of the territorial representatives subsequently provided substantially the same figures in their own testimony.

The above figures were supplied to us by the territories. We note that the Department of the Treasury has prepared income tax estimates which vary slightly from the territories' estimates. The Treasury's estimates were $12 million for the Virgin Islands, $9 million for Guam, and $.3 million for American Samoa.

We consider the effect of cuts in Federal programs and taxes in the territories to be of great importance and deserving of our continued attention. Therefore, we would like to outline our present and proposed approach to each issue (grants and taxes) separately.

FEDERAL GRANT PROGRAMS

Grants from Federal agencies are provided to the territories in exactly the same way as they are provided to the 50 states and the District of Columbia. They are not channeled through the Department of the Interior or any other central coordinating office. We do, of course, take a very special interest in grant programs for territories, and we maintain regular contact with the grant administration offices of all the Federal agencies that deal with the territories. Unfortunately, these offices are able to provide us with no more information than they provide the states and the territories. Initial estimates were guesses based on the first continuing resolution. These estimates are in fact the source of the data provided above.

The final effect of the budget cuts on each territory and state will not be known until well after the passage of departmental and agency appropriations bills and probably not until the close of the fiscal year. We are continuing our direct effort to obtain from the larger agencies the best and latest information on the effect of grant reductions in the territories. In addition, on October 13, 1981, (before the hearing), we again requested the territorial governments to provide us with their latest estimates on the extent and effect of the prospective cuts. By combining these sources of information, we expect, by the end of January 1982, to have and to provide to the Committee more up-to-date estimates of the effect on the territories of grant reductions. We emphasize that this does not mean the figures will be final at that time. We expect to continually revise them throughout the year.

With regard to our view of the role of the Federal government in limiting the impact of reductions in Federal grants on the territories, we are guided by two major principles: First, reductions in the Federal budget are necessary and will benefit all Americans by controlling inflation. Therefore, we would expect all Americans, including residents of the territories, to share in the sacrifices that these reductions will entail. Second, we are aware that the territories have more fragile economies and are more dependent on Federal grants than are the states. Thus, we consider it likely that some, although not all, grant reductions will have a disproportionately greater effect on the territorial governments and economies. We expect the territorial governments to identify these critical program cuts and we will help them to seek ways of alleviating the effects. When adequate information on the

actual effect of grant reductions becomes available, we will promptly review the situation.

FEDERAL INCOME TAX CUTS

The reductions in Federal income tax rates will have a negative effect on the revenues of those three territories that use the Federal income tax as a local tax: Guam, the Virgin Islands, and American Samoa. The effect of these income tax reductions on the territories is totally different from the effect of Federal program grant reductions for the following reasons:

(1) The taxes are collected by territorial governments from territorial residents. Thus, any reduction in tax rates or collections does not reduce Federal transfers to the territories. The result is, in fact, a reduction in transfers from the territorial private sector to the territorial public sector.

(2) Tax reductions are not, in their entirety, real reductions in resourse transfers but are, to a large extent, offsets to real increases in taxation resulting from the effect of inflation when it moves taxpayers to higher tax brackets ("bracket creep"). Treasury Department calculations indicate that the Economic Recovery Tax Act will bring about no significant reduction in effective tax rates for most taxpayers until mid-1983. Even then, the inflation rate will determine whether or not there is a real tax reduction. The higher the inflation rate, of course, the less chance of a real tax reduction.

(3) Territorial governments have legal authority to offset decreases in income tax revenues by imposing a surcharge. It is true that this authority, in Guam and the Virgin Islands, is limited to a 10 percent surcharge. Under most assumptions regarding inflation, however, a 10 percent surcharge will be more than enough to offset the real reduction in income tax rates to take effect through 1983. Furthermore, all territories exercise complete control over most other taxes on their residents (an advantage not shared by any state) and can, by local legislation, adjust or impose taxes (e.g. property, excise, death, gift, gasoline) to achieve a desired balance between government revenue and fiscal incentives.

The prospective revenue losses from income tax rate reductions do share one characteristic with losses from Federal grant reductions; they are impossible to quantify accurately until after the close of the fiscal year. Because changes in tax rates affect each taxpayer differently and because each taxpayer's return changes from year to year, there is no way of telling in advance with any degree of accuracy what the aggregate effect will be. Reliable figures will not be known, in fact, until several years hence when final returns have been filed, audits have been completed, and appeals have been exhausted.

Compounding this problem is the fact that the Economic Recovery Tax Act will probably affect corporate taxes to a greater extent than individual taxes in the territories. American Samoa and the Virgin Islands are heavily dependent on corporate taxes that are paid by only two or three companies. Meaningful projections of the effect of tax law changes on these companies require access to information not available even to territorial officials.

The above is not to say that improved estimates cannot be made during this year. Even for these estimates, however, recent base data must be available. We have requested Guam, the Virgin Islands, and American Samoa to provide revised estimates of income tax reductions and the base data and assumptions used to calculate them. If we are able to obtain this information from the territorial governments in a timely fashion, we will, by the end of January 1982, provide it to the Committee along with our own analyses and projections of the effects of the reductions on revenues.

In closing we would like to emphasize two points. First, we in Interior are well aware of the special needs of the territories and of our responsibility to interpret, support, and present these needs to the Executive Branch and the Congress. Second, we endorse the 20-year process advocated by this Administration and previous administrations and by the Congress to encourage self-government and economic self-sufficiency for the territories. We believe the territories have made good progress in the last few years in reducing dependence on the public sector and encouraging private sector growth, and we propose to build on that progress.

Sincerely,

DIANE K. MORALES,
Deputy Assistant Secretary
for Territorial and International Affairs.

CHANGES IN EXISTING LAW

In compliance with paragraph 12 of Rule XXVI of the Standing Rule of the Senate, changes in existing law made by H.R. 5139 as reported are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

ORGANIC ACT OF GUAM

(64 Stat. 384, as amended)

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SEC. 7. [Any Governor of Guam may be removed from office by a referendum election in which at least two-thirds of the number of persons voting for Governor in the last preceding general election at which a Governor was elected, vote in favor of recall and in which those so voting constitute a majority of all those participating in the referendum election. The referendum election shall be initiated by the legislature of Guam following (a) a two-thirds vote of the members of the legislature in favor of a referendum, or (b) a petition for such a referendum to the legislature by registered voters equal the number to at least 50 per centum of the whole number of votes cast for Governor at the last general election at which a Governor was elected preceding the filing of the petition.]

(a) The people of Guam shall have the right of initiative and referendum, to be exercised under conditions and procedures specified in the laws of Guam.

(b) Any Governor, Lieutenant Governor, or member of the legislature of Guam may be removed from office by a referendum election in which at least two-thirds of the number of persons voting for such official in the last preceding general election at which such official was elected vote in favor of recall and in which those so voting constitute a majority of all those participating in such referendum election. The referendum election shall be initiated by the legislature of Guam following (a) a two-thirds vote of the members of the legislature in favor of a referendum, or (b) petition for such a referendum to the legislature by registered voters equal in number to at least 50 per centum of the whole number of votes cast at the last general election at which such official was elected preceding the filing of the petition.

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PUBLIC LAW 96-205—MAR. 12, 1980

(94 Stat. 84, 89)

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SEC. 405. Any excise taxes levied by the Legislature of the Virgin Islands may be levied and collected as the Legislature of the Virgin Islands may direct as soon as the articles, goods, merchandise, and commodities subject to said tax are brought into the Virgin Islands. *The officials of the Customs and Postal Services of the United States are directed to assist the appropriate officials of the United States Virgin Islands in the collection of these taxes.*

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PUBLIC LAW 95-348—AUG. 18, 1978

(92 Stat. 487)

SECTION 1. (a) (1) For grants to the government of Guam for the rehabilitation, upgrading, and construction of public facilities, there is hereby authorized to be appropriated to the Secretary of the Interior (hereinafter in this Act referred to as the "Secretary") $13,868,000 for fiscal year 1979, and $20,000,000 thereafter, plus or minus such amounts, if any, as may be justified by reason of ordinary fluctuations in construction costs from October 1978 price levels as indicated by engineering cost indexes applicable to the types of construction [involved.] *involved, and $5,000,000 for fiscal year 1983.*

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PUBLIC LAW 96-597—DEC. 24, 1980

(94 Stat. 3477, 3478)

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SEC. 402. (a) Notwithstanding any other provision of law, subject to valid existing rights, and subject to subsection (b) of this section, all right, title, and interest of the Government of the United States in personal property situated in the Trust Territory of the Pacific Islands and of the government of the Trust Territory of the Pacific

Islands in personal property wherever located shall be transferred, without reimbursement, [by October 1, 1982.] *by a date not later than ninety days following termination of the trusteeship agreement governing the administration of the Trust Territory of the Pacific Islands*, to the government of the Northern Mariana Islands, Palau, the Marshall Islands, or the Federated States of Micronesia according to a list of distribution established by the High Commissioner of the Trust Territory of the Pacific Islands in consultation with the recipient government.

(b) Personal property referred to in subsection (a) of this section shall be transferred upon declaration by the High Commissioner of the Trust Territory of the Pacific Islands that such property is surplus to the needs of the government of the Trust Territory of the Pacific Islands, which declaration shall be approved, if applicable, by the head of the agency of the Government of the United States having administrative responsibility for the property.

(c) If no government exists in Palau at the time of enactment of this section that is capable of receiving title to such property in its own name, the government of the Trust Territory of the Pacific Islands shall hold such property in trust for the prospective government of Palau until such government is established.

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PUBLIC LAW 96-597—DEC. 24, 1980

(94 Stat. 3477, 3483)

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SEC. 607. (a) In order to assist the governments of Guam and the Virgin Islands in eliminating general fund deficits, there is authorized to be appropriated to the Secretary of the Interior for payment to Guam not to exceed $15 000.000 for fiscal year 1982, and $11,000,000 for fiscal year 1983. $7,500.000 for fiscal year 1984, and $4,000,000 for fiscal year 1985: and for payment to the Virgin Islands not to exceed $12.000 000 for fiscal year 1982. $9,000,000 for fiscal year 1983, $6,000,-000 for fiscal year 1984, and $3 000,000 for fiscal year 1985.

[(b) The Governors of Guam and the Virgin Islands shall each submit a plan for approval to the Secretary of the Interior in consultation with the Secretary of the Treasury which is designed to eliminate the respective territory's general fund deficits by the beginning of fiscal year 1986. Such plan shall provide for—

[(1) implementation of an effective budgeting and accounting system;

[(2) realistic revenue and expenditure projections which will progressively reduce current year general fund deficits and result in a balanced general fund budget no later than the beginning of fiscal year 1986;

[(3) financing of accumulated general fund deficits;

[(4) quarterly goals and timetables for implementing the plan. The plan shall also indicate that the Governor has the necessary authority to implement the plan.

[(c) Not more than thirty days after the close of each quarter which occurs after the plan required under subsection (a) of this section has been approved by the Secretary of the Interior in consultation with the Secretary of the Treasury and through the close of fiscal year 1985, the respective Governor shall submit a report to the Secretary of the Interior and the Secretary of the Treasury, certified by the respective government comptroller, describing in detail the success or failure of such territory in meeting the goals and timetables described in such plan.

[(d) No payment shall be made under this title until the plan required under this section has been approved by the Secretary of the Interior in consultation with the Secretary of the Treasury. Before making any payment under this title after such plan has been approved, the Secretary shall determine whether the respective territory is meeting the goals and timetables prescribed in such plan. If the Secretary determines that such territory is not meeting such goals or timetables, he shall withhold payments otherwise due such territory until he determines that such goals and timetables are being met.]

(b) The Governors of Guam and the Virgin Islands shall, as a condition for a grant pursuant to subsection a of this section, submit a plan which is designed to eliminate the respective territory's general fund deficit by the beginning of Fiscal Year 1987 to the Secretary of the Interior. Within sixty days after he has received such a plan, the Secretary of the Interior shall transmit the plan, together with his comments and recommendations to the Congress. The plan shall provide for—

(1) implementation of an effective budgetary and accounting system;

(2) realistic revenue and expenditure projections which will progressively reduce current year general fund deficits and result in a balanced general fund budget no later than the beginning of fiscal year 1987;

(3) financing of accumulated general fund deficits;

(4) quarterly goals and timetables for implementing the plan. The plan shall also indicate that the Governor has the necessary authority to implement the plan.

(c) Not later than thirty days after the close of each quarter which occurs after the plan has been transmitted to the Congress, the respective Governor shall submit a report to the Secretary of the Interior and the Congress describing in detail the success or failure of such territory in meeting the goals and timetables described in such plan.

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